

**WEST MARSHALL
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Funds Financial Statements:	
Combining Statement of Net Assets	G 21
Combining Statement of Revenues, Expenses and Changes in Net Assets	H 22
Combining Statement of Cash Flows	I 23
Notes to Financial Statements	24-30
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds	31
Notes to Required Supplementary Information - Budgetary Reporting	32
Other Supplementary Information:	<u>Schedule</u>
Non-major Special Revenue Funds:	
Combining Balance Sheet	1 33
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 34
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 35
Schedule of Revenues by Source	4 36
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	37-38
Schedule of Findings	39-40

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Mark Nolta	President	2006
Julie Arnold		2005
William Tomlinson		2007
Julie Randall		2007
Kathy Buschbom		2005
Stephen Smith		2006
Brian Maddick		2006

(After September, 2005 Election)

Mark Nolta	President	2006
William Tomlinson		2007
Lisa Breja		2008
Julie Randall		2007
Tim German		2008
Stephen Smith		2006
Brian Maddick		2006

SCHOOL OFFICIALS

Ned Sellers	Superintendent
Christine Davis	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
West Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of West Marshall Community School District, State Center, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of West Marshall Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2006 on our consideration of West Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Marshall Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 9, 2006

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,894,274 in fiscal 2005 to \$6,369,258 in fiscal 2006, while General Fund expenditures decreased from \$6,054,318 in fiscal year 2005 to \$5,955,649 in fiscal 2006.
- The increase in General Fund revenues was attributable to increases in all areas of income. The decrease in expenditures was due primarily to reductions in discretionary spending.
- Allowable growth of 4% is inadequate to finance existing programs without dipping into reserves.
- The School Infrastructure Local Option Sales Tax passed in Marshall County in March, 2004. The District began receiving these funds in September, 2004. These monies will be used for property tax relief to pay for the District's debt service in fiscal year 2006. Remaining funds will be used for improvements to district facilities.
- The District no longer has a property tax levy for debt service. Local option sales tax monies are being used instead.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
West Marshall Community School District

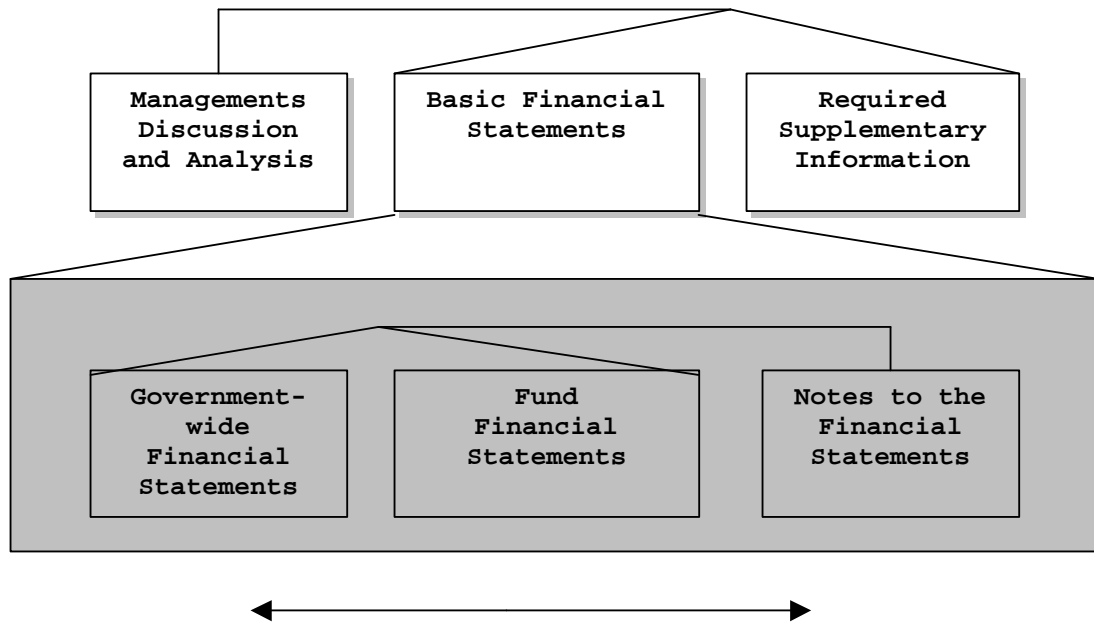


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Revenues, Expenses and Changes in Net Assets . Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	4,821	4,049	108	97	4,929	4,146	18.89%
Capital assets	3,771	3,796	50	57	3,821	3,853	-0.83%
Total assets	<u>8,592</u>	<u>7,845</u>	<u>158</u>	<u>154</u>	<u>8,750</u>	<u>7,999</u>	<u>9.39%</u>
Current liabilities	2,059	2,086	-	-	2,059	2,086	-1.29%
Non-current liabilities	1,880	2,100	-	-	1,880	2,100	-10.48%
Total liabilities	<u>3,939</u>	<u>4,186</u>	<u>-</u>	<u>-</u>	<u>3,939</u>	<u>4,186</u>	<u>-5.90%</u>
Net Assets							
Invested in capital assets, net of related debt	1,891	1,697	57	57	1,948	1,754	11.06%
Restricted	772	406	-	-	772	406	90.15%
Unrestricted	<u>1,990</u>	<u>1,556</u>	<u>101</u>	<u>97</u>	<u>2,091</u>	<u>1,653</u>	<u>26.50%</u>
Total net assets	<u>4,653</u>	<u>3,659</u>	<u>158</u>	<u>154</u>	<u>4,811</u>	<u>3,813</u>	<u>26.17%</u>

Total net assets increased by almost \$1,000,000. The largest increases were in the General and Capital Project Funds. The District had increased revenues in all areas of the General Fund while holding down discretionary spending. Local option sales tax revenues increased by over \$140,000. These funds are primarily used for debt service. This allowed the District to not levy property taxes for debt services.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	332	257	434	202	766	459	66.88%
Operating grants, contributions and restricted interest	881	784	224	122	1,105	906	21.96%
General revenues:							
Property tax	1,963	2,127	-	-	1,963	2,127	-7.71%
Income surtax	288	308	-	-	288	308	-6.49%
Local option sales tax	475	331	-	-	475	331	43.50%
Unrestricted state grants	3,172	3,003	-	-	3,172	3,003	5.63%
Unrestricted investment earnings	51	40	-	-	51	40	27.50%
Other	115	127	-	-	115	127	-9.45%
Total revenues	<u>7,277</u>	<u>6,977</u>	<u>658</u>	<u>324</u>	<u>7,935</u>	<u>7,301</u>	<u>8.68%</u>
Program expenses:							
Governmental activities:							
Instruction	3,813	3,800	-	-	3,813	3,800	0.34%
Support Services	1,988	1,952	-	-	1,988	1,952	1.84%
Non-instructional programs	-	-	689	326	689	326	111.35%
Other expenses	483	505	-	-	483	505	-4.36%
Total expenses	<u>6,284</u>	<u>6,257</u>	<u>689</u>	<u>326</u>	<u>6,973</u>	<u>6,583</u>	<u>5.92%</u>
Change in net assets	<u>993</u>	<u>720</u>	<u>(31)</u>	<u>(2)</u>	<u>962</u>	<u>718</u>	<u>33.98%</u>

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,277,596 and expenses were \$6,289,260.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	%
Instruction	3,813	3,800	2,870	3,018	-4.90%
Support Services	1,988	1,952	1,988	1,935	2.74%
Other expenses	<u>483</u>	<u>505</u>	<u>214</u>	<u>262</u>	<u>-18.32%</u>
Totals	<u><u>6,284</u></u>	<u><u>6,257</u></u>	<u><u>5,072</u></u>	<u><u>5,215</u></u>	<u><u>-2.74%</u></u>

- The cost financed by users of the District's programs was \$332,004.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$472,593.
- The net cost of governmental activities was financed with \$1,964,446 in property tax, \$3,171,708 in state foundation aid, and \$50,823 in interest income.

Business Type Activities

Revenues of the District's business type activities were \$344,656 and expenses were \$341,702. The District's business type activities include the School Nutrition and Preschool Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District held meal prices steady. The District spent over \$9,000 on equipment and repairs.

The District began a Preschool program during the year ended June 30, 2005.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted West Marshall Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,652,516, a 27% increase over last year's ending fund balances of \$3,659,180. The primary reason was the collection of local option sales taxes.

Governmental Fund Highlights

- The District met its operating expenses by using existing reserves.
- The District collected over \$475,000 in sales tax money. This is to be used for property tax relief and infrastructure projects.
- With the available PPEL dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities.

Proprietary Fund Highlights

Administrative control over discretionary spending and food costs allowed for an increase in the Nutrition Fund cash balance. The District was able to purchase over \$9,000 in equipment during the year.

The District initiated a preschool education program.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$529,432 greater than budgeted receipts, a variance of 7%. The most significant variance resulted from the District receiving more in sales taxes and tuition than originally anticipated

Budgeted expenses were less than actual, due to careful monitoring.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$214,064.

The original cost of the District's capital assets was \$7,871,898. Governmental funds account for \$7,762,288, with the remainder of \$109,610 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	125	125	-	-	125	125	0.00%
Site improvements	351	290	-	-	351	290	21.03%
Buildings	3,032	3,133	-	-	3,032	3,133	-3.22%
Furniture and equipment	263	249	50	57	313	306	2.29%
Totals	<u>3,771</u>	<u>3,797</u>	<u>50</u>	<u>57</u>	<u>3,821</u>	<u>3,854</u>	<u>-0.86%</u>

Long-Term Debt

At June 30, 2006, the District had \$1,880,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 10% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

Total		Total
District		Change
June 30,		June 30,
2006	2005	2005-2006
\$	\$	
General obligation bonds	<u>1,880</u>	<u>2,100</u> <u>-10.48%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed and money began to be received by the District in July of 2004. This tax will allow for property tax relief as well as infrastructure projects.
- Current allowable growth is inadequate to maintain current educational programs.
- Health insurance continues to be a very costly item to the District. Even though employees in regard to deductibles, and coinsurance have made concessions, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- The District is looking at the possibility of constructing a new middle school building.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ned Sellers, Superintendent, West Marshall Community School District, 3rd St NW, PO Box 670, State Center, IA 50247.

Basic Financial Statements

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash	2,474,160	106,283	2,580,443
Receivables:			
Property tax:			
Current year	35,240	-	35,240
Succeeding year	2,054,450	-	2,054,450
Income surtax - succeeding year	165,000	-	165,000
Due from other governments	89,063	-	89,063
Other receivables	3,025	-	3,025
Inventories	-	1,814	1,814
Capital assets, net of accumulated depreciation	3,771,056	50,035	3,821,091
Total assets	8,591,994	158,132	8,750,126
Liabilities			
Accrued interest payable	5,028	-	5,028
Deferred revenue:			
Succeeding year property tax	2,054,450	-	2,054,450
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	225,000	-	225,000
Portion due after one year:			
General obligation bonds payable	1,655,000	-	1,655,000
Total liabilities	3,939,478	-	3,939,478
Net assets			
Invested in capital assets, net of related debt	1,891,056	50,035	1,941,091
Restricted for:			
Management levy	123,897	-	123,897
Student activities	73,284	-	73,284
Physical plant and equipment levy	35,011	-	35,011
Capital projects	524,273	-	524,273
Debt service	15,156	-	15,156
Unrestricted	1,989,839	108,097	2,097,936
Total net assets	4,652,516	158,132	4,810,648

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>3,813,183</u>	<u>332,004</u>	<u>611,025</u>	<u>(2,870,154)</u>	<u>-</u>	<u>(2,870,154)</u>
Support services:						
Student services	279,759	-	-	(279,759)	-	(279,759)
Instructional staff services	110,117	-	-	(110,117)	-	(110,117)
Administration services	580,055	-	-	(580,055)	-	(580,055)
Operation and maintenance of plant services	601,160	-	77	(601,083)	-	(601,083)
Transportation services	<u>416,665</u>	<u>-</u>	<u>-</u>	<u>(416,665)</u>	<u>-</u>	<u>(416,665)</u>
	<u>1,987,756</u>	<u>-</u>	<u>77</u>	<u>(1,987,679)</u>	<u>-</u>	<u>(1,987,679)</u>
Other expenditures:						
AEA flowthrough	254,985	-	254,985	-	-	-
Long-term debt interest	65,150	-	145	(65,005)	-	(65,005)
Facilities acquisition and construction	36,957	-	14,508	(22,449)	-	(22,449)
Depreciation (unallocated)*	<u>126,229</u>	<u>-</u>	<u>-</u>	<u>(126,229)</u>	<u>-</u>	<u>(126,229)</u>
	<u>483,321</u>	<u>-</u>	<u>269,638</u>	<u>(213,683)</u>	<u>-</u>	<u>(213,683)</u>
Total governmental activities	6,284,260	332,004	880,740	(5,071,516)	-	(5,071,516)

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business Type activities:					
Non-instructional programs:					
Nutrition services and preschool services	341,072	206,563	138,093	-	3,584
Total	6,625,332	538,567	1,018,833	(5,071,516)	3,584
General revenues:					
Property tax levied for:					
General purposes			1,704,380	-	1,704,380
Capital outlay			59,290	-	59,290
Management			200,776	-	200,776
Income surtax			287,533	-	287,533
Local option sales tax			475,110	-	475,110
Unrestricted state grants			3,171,708	-	3,171,708
Unrestricted investment earnings			50,823	-	50,823
Other			115,232	-	115,232
Total general revenue			6,064,852	-	6,064,852
Change in net assets			993,336	3,584	996,920
Net assets beginning of year			3,659,180	154,548	3,813,728
Net assets end of year			4,652,516	158,132	4,810,648

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash	1,779,382	447,093	20,184	227,501	2,474,160
Receivables:					
Property tax:					
Current year	30,549	-	-	4,691	35,240
Succeeding year	1,832,821	-	-	221,629	2,054,450
Income surtax - succeeding year	165,000	-	-	-	165,000
Due from other governments	11,883	77,180	-	-	89,063
Other receivables	3,025	-	-	-	3,025
Total assets	<u>3,822,660</u>	<u>524,273</u>	<u>20,184</u>	<u>453,821</u>	<u>4,820,938</u>
Liabilities and Fund Balance					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	1,832,821	-	-	221,629	2,054,450
Succeeding year income surtax	165,000	-	-	-	165,000
Total liabilities	<u>1,997,821</u>	<u>-</u>	<u>-</u>	<u>221,629</u>	<u>2,219,450</u>
Fund balances:					
Reserved for debt service	-	-	20,184	-	20,184
Reserved for capital projects	-	524,273	-	-	524,273
Unreserved	1,824,839	-	-	232,192	2,057,031
Total fund balances	<u>1,824,839</u>	<u>524,273</u>	<u>20,184</u>	<u>232,192</u>	<u>2,601,488</u>
Total liabilities and fund balances	<u>3,822,660</u>	<u>524,273</u>	<u>20,184</u>	<u>453,821</u>	<u>4,820,938</u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 2,601,488
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	165,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	3,771,056
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(5,028)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,880,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 4,652,516</u></u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	<u>General</u>	<u>Capital</u>	<u>Debt</u>	<u>Special</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues:					
Local sources:					
Local tax	1,971,913	475,110	-	260,066	2,707,089
Tuition	332,004	-	-	-	332,004
Other	166,055	14,508	145	138,509	319,217
State sources	3,755,551	-	-	-	3,755,551
Federal sources	143,735	-	-	-	143,735
Total revenues	<u>6,369,258</u>	<u>489,618</u>	<u>145</u>	<u>398,575</u>	<u>7,257,596</u>
Expenditures:					
Current:					
Instruction:	<u>3,674,172</u>	<u>-</u>	<u>-</u>	<u>139,011</u>	<u>3,813,183</u>
Support services:					
Student services	279,759	-	-	-	279,759
Instructional staff services	110,117	-	-	-	110,117
Administration services	580,055	-	-	-	580,055
Operation and maintenance of plant services	641,648	-	-	62,024	703,672
Transportation services	<u>414,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>414,913</u>
	<u>2,026,492</u>	<u>-</u>	<u>-</u>	<u>62,024</u>	<u>2,088,516</u>
Other expenditures:					
AEA flowthrough	254,985	-	-	-	254,985
Long-term debt:					
Principal	-	-	220,000	-	220,000
Interest	-	-	65,833	-	65,833
Facilities acquisition and construction	<u>-</u>	<u>10,416</u>	<u>-</u>	<u>26,541</u>	<u>36,957</u>
	<u>254,985</u>	<u>10,416</u>	<u>285,833</u>	<u>26,541</u>	<u>577,775</u>
Total expenditures	<u>5,955,649</u>	<u>10,416</u>	<u>285,833</u>	<u>227,576</u>	<u>6,479,474</u>

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Capital Projects	Debt Service	Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>413,609</u>	<u>479,202</u>	<u>(285,688)</u>	<u>170,999</u>	<u>778,122</u>
Other financing uses (sources):					
Operating transfers in	-	-	285,833	-	285,833
Operating transfers out	<u>-</u>	<u>(285,833)</u>	<u>-</u>	<u>-</u>	<u>(285,833)</u>
Total other financing sources (uses)	<u>-</u>	<u>(285,833)</u>	<u>285,833</u>	<u>-</u>	<u>-</u>
Net change in fund balances	413,609	193,369	145	170,999	778,122
Fund balances beginning of year	<u>1,411,230</u>	<u>330,904</u>	<u>20,039</u>	<u>61,193</u>	<u>1,823,366</u>
Fund balances end of year	<u><u>1,824,839</u></u>	<u><u>524,273</u></u>	<u><u>20,184</u></u>	<u><u>232,192</u></u>	<u><u>2,601,488</u></u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 778,122

Amounts reported for governmental activities in the
 statement of activities are different because:

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 20,000

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	179,461
Depreciation expense	(204,930)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds	220,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

683

Change in net assets of governmental activities (Exhibit B)	<u>\$ 993,336</u>
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See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

June 30, 2006

	School Nutrition	Preschool	Total
	\$	\$	
Assets			
Cash	99,094	7,189	106,283
Inventories	1,814	-	1,814
Capital assets, net of accumulated depreciation	50,035	-	50,035
Total assets	<u>150,943</u>	<u>7,189</u>	<u>158,132</u>
Net Assets			
Invested in capital assets, net of related debt	50,035	-	50,035
Unrestricted	100,908	7,189	108,097
Total net assets	<u>150,943</u>	<u>7,189</u>	<u>158,132</u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Preschool	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>182,973</u>	<u>23,590</u>	<u>206,563</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	103,489	-	103,489
Benefits	13,429	-	13,429
Services	3,879	-	3,879
Supplies	183,005	-	183,005
Property	7,442	-	7,442
Depreciation	<u>9,134</u>	<u>-</u>	<u>9,134</u>
	<u>320,378</u>	<u>-</u>	<u>320,378</u>
Other enterprise operations:			
Salaries and benefits	<u>-</u>	<u>20,694</u>	<u>20,694</u>
	<u>-</u>	<u>20,694</u>	<u>20,694</u>
Total operating expenses	<u>320,378</u>	<u>20,694</u>	<u>341,072</u>
Operating income (loss)	<u>(137,405)</u>	<u>2,896</u>	<u>(134,509)</u>
Non-operating revenues:			
Interest on investments	2,288	-	2,288
Loss on disposal of fixed asset	(456)	-	(456)
State sources	5,042	-	5,042
Federal sources	<u>128,401</u>	<u>2,818</u>	<u>131,219</u>
	<u>135,275</u>	<u>2,818</u>	<u>138,093</u>
Change in net assets	(2,130)	5,714	3,584
Net assets beginning of year	<u>153,073</u>	<u>1,475</u>	<u>154,548</u>
Net assets end of year	<u><u>150,943</u></u>	<u><u>7,189</u></u>	<u><u>158,132</u></u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Preschool	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	182,973	23,590	206,563
Cash payments to employees for services	(116,918)	(20,694)	(137,612)
Cash payments to suppliers for goods or services	(176,048)	-	(176,048)
Net cash provided by (used in) operating activities	(109,993)	2,896	(107,097)
Cash flows from non-capital financing activities:			
State grants received	5,042	-	5,042
Federal grants received	111,559	2,818	114,377
Net cash provided by non-capital financing activities	116,601	2,818	119,419
Cash flows from capital financing activities:			
Acquisition of fixed assets	(2,366)	-	(2,366)
Cash flows from investing activities:			
Interest on investments	2,288	-	2,288
Net increase in cash and cash equivalents	6,530	5,714	12,244
Cash and cash equivalents beginning of year	92,564	1,475	94,039
Cash and cash equivalents end of year	99,094	7,189	106,283
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(137,405)	2,896	(134,509)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	9,134	-	9,134
Commodities used	16,842	-	16,842
Decrease in inventory	1,436	-	1,436
	(109,993)	2,896	(107,097)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	99,094	7,189	106,283

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$16,842.

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

West Marshall Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of State Center, Melbourne, Rhodes and Clemons, Iowa, and agricultural area in Story and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, West Marshall Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. West Marshall Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Preschool Funds. These funds are used to account for the food service and preschool education operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year-end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum-adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first in, first-out method for purchased items government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures did not exceed budgeted amounts in any of the four functions during the year ending June 30, 2006.

(2) **Cash Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Capital assets being depreciated:				
Site Improvements	449,173	84,012	-	533,185
Buildings	6,082,624	-	-	6,082,624
Furniture and Equipment	<u>926,030</u>	<u>95,449</u>	<u>-</u>	<u>1,021,479</u>
Total capital assets being depreciated	<u>7,457,827</u>	<u>179,461</u>	<u>-</u>	<u>7,637,288</u>
Less accumulated depreciation for:				
Site Improvements	159,429	23,043	-	182,472
Buildings	2,950,060	100,873	-	3,050,933
Furniture and Equipment	<u>676,813</u>	<u>81,014</u>	<u>-</u>	<u>757,827</u>
Total accumulated depreciation	<u>3,786,302</u>	<u>204,930</u>	<u>-</u>	<u>3,991,232</u>
Total capital assets being depreciated, net	<u>3,671,525</u>	<u>(25,469)</u>	<u>-</u>	<u>3,646,056</u>
Governmental activities, capital assets, net	<u>3,796,525</u>	<u>(25,469)</u>	<u>-</u>	<u>3,771,056</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	109,069	2,366	1,825	109,610
Less accumulated depreciation	51,810	9,134	1,369	59,575
Business type activities capital assets, net	<u>57,259</u>	<u>(6,768)</u>	<u>456</u>	<u>50,035</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

78,701
126,229
204,930

Business Type activities:

Food service operations

9,134

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$214,173, \$207,921, and \$199,211 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$254,985 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

West Marshall Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District has self-insurance of the deductible for health insurance under an 80/20 plan. The District is liable for each employee's deductible up to \$500 per single and \$1000 for dependent coverage. The District's maximum liability as computed by their insurance carrier is \$49,500 annually (based on current employment levels).

(7) Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u> %	<u>Principal</u> \$	<u>Interest</u> \$	<u>Total</u> \$
2007	2.75	225,000	60,333	285,333
2008	3.00	230,000	54,145	284,145
2009	3.00	245,000	47,245	292,245
2010	3.20	250,000	39,895	289,895
2011	3.30	260,000	31,895	291,895
2012	3.40	270,000	23,315	293,315
2013	3.50	265,000	14,135	279,135
2014	3.60	<u>135,000</u>	<u>4,860</u>	<u>139,860</u>
Total		<u>1,880,000</u>	<u>275,823</u>	<u>2,155,823</u>

(8) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>General Obligation Bonds</u>
Balance beginning of year	\$2,100,000
Additions	-
Reductions	<u>220,000</u>
Balance end of year	<u>\$1,880,000</u>

(9) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is the cost of single insurance up to \$350 per month. Early retirement benefits paid during the year ended June 30, 2006 totaled \$54,564.

Required Supplementary Information

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,358,310	208,851	3,567,161	3,300,620	3,300,620	266,541
State sources	3,755,551	5,042	3,760,593	3,628,656	3,628,656	131,937
Federal sources	143,735	131,219	274,954	144,000	144,000	130,954
Total revenues	<u>7,257,596</u>	<u>345,112</u>	<u>7,602,708</u>	<u>7,073,276</u>	<u>7,073,276</u>	<u>529,432</u>
Expenditures:						
Instruction	3,813,183	-	3,813,183	4,021,406	4,021,406	208,223
Support services	2,088,516	-	2,088,516	2,377,105	2,377,105	288,589
Non-instructional programs	-	341,072	341,072	349,582	349,582	8,510
Other expenditures	577,775	-	577,775	619,547	619,547	41,772
Total expenditures	<u>6,479,474</u>	<u>341,072</u>	<u>6,820,546</u>	<u>7,367,640</u>	<u>7,367,640</u>	<u>547,094</u>
Excess (deficiency) of revenues over (under) expenditures	778,122	4,040	782,162	(294,364)	(294,364)	1,076,526
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	778,122	4,040	782,162	(294,364)	(294,364)	1,076,526
Balance beginning of year	<u>1,823,366</u>	<u>154,548</u>	<u>1,977,914</u>	<u>1,600,530</u>	<u>1,600,530</u>	<u>377,384</u>
Balance end of year	<u>2,601,488</u>	<u>158,588</u>	<u>2,760,076</u>	<u>1,306,166</u>	<u>1,306,166</u>	<u>1,453,910</u>

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	120,253	73,284	33,964	227,501
Property tax receivable:				
Current year	3,644	-	1,047	4,691
Succeeding year	<u>160,000</u>	<u>-</u>	<u>61,629</u>	<u>221,629</u>
Total assets	<u><u>283,897</u></u>	<u><u>73,284</u></u>	<u><u>96,640</u></u>	<u><u>453,821</u></u>
Liabilities and Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	<u>160,000</u>	<u>-</u>	<u>61,629</u>	<u>221,629</u>
	<u>160,000</u>	<u>-</u>	<u>61,629</u>	<u>221,629</u>
Fund balance:				
Unreserved fund balance	<u>123,897</u>	<u>73,284</u>	<u>35,011</u>	<u>232,192</u>
	<u>123,897</u>	<u>73,284</u>	<u>35,011</u>	<u>232,192</u>
Total liabilities and fund balances	<u><u>283,897</u></u>	<u><u>73,284</u></u>	<u><u>96,640</u></u>	<u><u>453,821</u></u>

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	200,776	-	59,290	260,066
Other	-	138,432	77	138,509
Total revenues	<u>200,776</u>	<u>138,432</u>	<u>59,367</u>	<u>398,575</u>
Expenditures:				
Instruction:	28,009	111,002	-	139,011
Support services:				
Student support services	-	-	-	-
Instructional support services	-	-	-	-
Administration services	-	-	-	-
Plant operation and maintenance	62,024	-	-	62,024
Student transportation	-	-	-	-
Other expenditures:				
Facility acquisition and construction services	-	-	26,541	26,541
Total expenditures	<u>90,033</u>	<u>111,002</u>	<u>26,541</u>	<u>227,576</u>
Excess (deficiency) of revenues over (under) expenditures	110,743	27,430	32,826	170,999
Fund balances beginning of year	<u>13,154</u>	<u>45,854</u>	<u>2,185</u>	<u>61,193</u>
Balance end of year	<u>123,897</u>	<u>73,284</u>	<u>35,011</u>	<u>232,192</u>

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
6th Grade Store	-	198	-	198
Drama	2,808	2,483	3,154	2,137
Speech	107	330	161	276
Trojan Players	74	429	329	174
Elementary Renaissance	3,295	3,597	4,568	2,324
Spanish Club	244	-	-	244
Athletic Memberships	125	250	159	216
Golf	(2,842)	5,173	2,313	18
Basketball	1,986	6,991	8,021	956
Volleyball	592	3,885	3,687	790
Football	911	14,779	11,211	4,479
Baseball	(2,465)	10,021	6,859	697
Track	2,556	4,394	2,841	4,109
Wrestling	1,082	4,979	4,131	1,930
District Football	-	-	-	-
Softball	(1,566)	9,839	6,083	2,190
High School Activities	1,314	2,903	3,044	1,173
FFA	22,755	35,222	22,240	35,737
National Honor Society	234	81	255	60
Class of 2007	30	4,464	3,914	580
Class of 2008	-	-	-	-
HS Cheerleaders	1,032	2,497	2,724	805
Class of 2009	-	-	-	-
Class of 2006	1,882	-	1,177	705
MS Student Council	1,852	8,329	8,275	1,906
HS Student Council	457	963	948	472
Interest	841	1,277	1,275	843
Annual	4,684	8,610	7,594	5,700
FBLA	1,681	100	800	981
Ag Day	400	-	75	325
MS Renaissance	1,257	6,638	4,884	3,011
HS Renaissance	528	-	280	248
Total	45,854	138,432	111,002	73,284

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source
All Governmental Funds

For the Last Four Years

	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
General	1,971,913	1,820,921	1,997,981	2,023,528
Special revenue/debt service	260,066	470,985	447,760	443,303
Capital projects	475,110	330,904	-	-
	<u>2,707,089</u>	<u>2,622,810</u>	<u>2,445,741</u>	<u>2,466,831</u>
State sources:				
General	<u>3,755,551</u>	<u>3,502,195</u>	<u>3,351,565</u>	<u>3,286,074</u>
Federal sources:				
General	<u>143,735</u>	<u>78,220</u>	<u>108,264</u>	<u>123,698</u>
Total	<u><u>6,606,375</u></u>	<u><u>6,203,225</u></u>	<u><u>5,905,570</u></u>	<u><u>5,876,603</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
West Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the West Marshall Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 9, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Marshall Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of West Marshall Community School District and other parties to whom West Marshall Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of West Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 9, 2006

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the certified budget amounts in any of the four functions.

06-II-C Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-II-E Business Transactions - No business transactions between the District and District officials or employees.

06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.